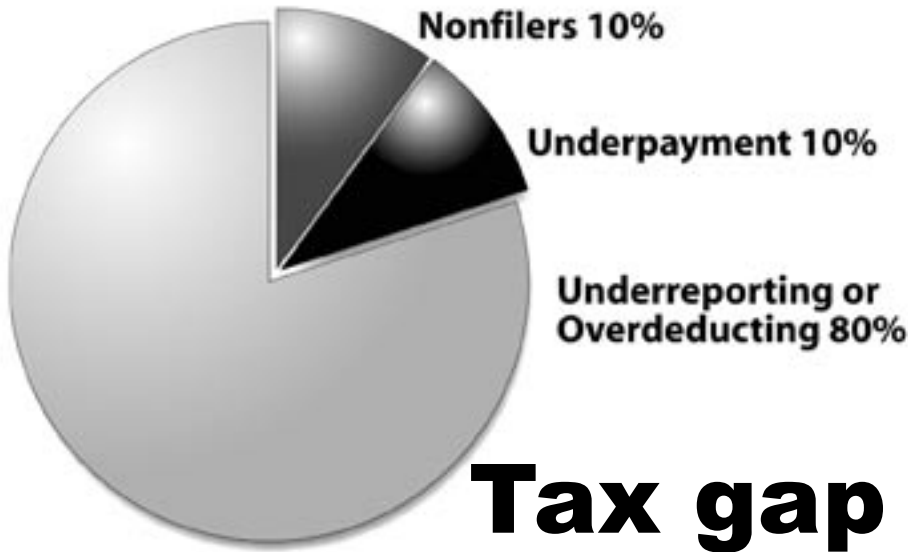


JULY/AUGUST 2004

CALIFORNIA FRANCHISE TAX BOARD



We conservatively estimate California's tax gap - the difference between what taxpayers owe and what they voluntarily pay - to be about \$6.5 billion a year. Individuals and business entities create the tax gap when they underreport (or overdeduct from) their income, fail to file required tax returns, or underpay their tax owed. Our special series on the tax gap begins with the *Ask the Advocate* column on page 3.

Three public service counters close permanently on July 1

The Long Beach, Van Nuys, and West Covina public service lobbies will permanently close on July 1, 2004, due to budget constraints. If taxpayers need further assistance, they can visit our Website at: www.ftb.ca.gov, call the telephone number located on their billing notice, call our toll-free number at (800) 338-0505, or visit one of these field offices:

Los Angeles Field Office
300 S. Spring Street
Suite 5704
Los Angeles CA 90013

Sacramento Field Office
3321 Power Inn Road
Suite 250
Sacramento CA 95826

Santa Ana Field Office
600 W. Santa Ana Blvd
Suite 300
Santa Ana CA 92701

Oakland Field Office
1515 Clay Street
Suite 305
Oakland CA 94612

San Francisco Field Office
121 Spear Street
Suite 400
San Francisco CA 94105

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@ www.ftb.ca.gov

Tax News

Volume 04-4 July/August 2004

Tax News is a bimonthly publication of the Communications Services Bureau of the California Franchise Tax Board. Our primary objective is to provide information to income tax practitioners about state income tax laws, regulations, policies and procedures.

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If you need help subscribing to any of our products or services, call the *Tax News* Helpdesk at (916) 845-7070 or send an email message to taxnews@ftb.ca.gov.

Tax Practitioner Services

Our Tax Practitioner Support Unit is available from 8 a.m. to 5 p.m., Monday through Friday. Our telephone number is (916) 845-7057. You can send us a fax 24 hours a day, seven days a week. Our fax number is (916) 845-6377.

Hearing Impaired
TDD (800) 822-6268

Clients must show intent, action when changing their residency

Court gives guidance on factors to consider in recent *Noble v. FTB* decision

Your clients, long-time California residents, inform you they intend to change their California residency status later this year. How would you advise them regarding their future residency change?

You first need to understand that California considers the terms *domicile* and *residence* as two distinct concepts. *Domicile* defines the one location with which for legal purposes a person maintains the most settled and permanent connections, the place where they intend to remain and to which, whenever absent, they intend to return. The term *residence* defines the place where a person maintains their closest connections.

In order for your clients to change their domicile to a new location outside California, they must:

- Abandon their California domicile.
- Physically move to and reside in the new location.
- Intend to remain in the new location permanently or indefinitely.

Intent alone is not enough to change California domicile. In a recent decision, *Homer E. Noble v. Franchise Tax Board*, the 2nd Appellate District of the California Court of Appeal provided guidance in this area. The opinion states, "A resident's intent to move unsupported by physical acts is not the determinative factor as to whether a taxpayer has changed his or her residence or domicile for tax purposes."

The Court cited numerous physical acts in determining the Nobles remained domiciled in and residents of California during the time period at issue. The Court's opinion illustrates the importance of considering all the facts and circumstances of a person's particular situation when determining that person's residency status.

In applying the Court's opinion, your clients' physical acts must demonstrate they severed their California connections, physically moved to and resided in their new location, and intend to remain in their new location permanently or indefinitely. Their physical acts must also demonstrate they changed their California residence by establishing and maintaining their closest connections in their new location.



2003 Tax Forms
Updates & Revisions
Available Online
www.ftb.ca.gov

Withholding agents to receive penalties for negligence

In July we began mailing notices of our intention to assess penalties for failure to file correct or timely information returns and statements regarding withholding at source.

The notices are a follow up to letters we sent in November 2002 to all identified Form 592-B withholding agents informing them of our intent.

Revenue and Taxation Code Section 18662 requires any person making California source income payments to nonresidents to withhold California income or franchise tax if the payments are for any of the following:

- Services performed by independent contractors.
- Rents.
- Royalties.
- Sales of California real estate.
- Estate income.
- Trust income.
- Partnership income.

The withhold agent must report the withholding information to the payee and us. A four-part form is used for this purpose. The form that must be filed with us is an information return. The two forms that must be provided to the payee are information statements. The forms and due dates for filing information returns and statements regarding withhold at source activity are based on the nature of the transaction. For more information or to request forms, go to our Website, www.ftb.ca.gov.

Or call us at:

From within the United States (toll-free)
(888) 792-4900

From outside the United States (not toll-free)
(916) 845-4900

We comply with the Americans with Disabilities Act. Persons with hearing or speech impairments please call TTY/TDD (800) 822-6268.

Email: wscs.gen@ftb.ca.gov (non-confidential email)
Fax: (916) 845-9512

Ask the Advocate



Debbie Newcomb
Taxpayer Advocate

Dear readers:

The tax gap—the difference between what taxpayers owe and what they voluntarily pay or what is detected and collected, has grown into a \$6.5 billion a year problem for California—and has recaptured the attention of lawmakers. The tax gap is now generating considerable buzz in the tax professional community, too.

The tax gap is not a new phenomenon. The Internal Revenue Service has been measuring its impact since the 1970s; but it is now in the spotlight due to the state's burgeoning budget shortfall.

Besides lost tax revenue, the tax gap creates an unfair advantage for tax cheats. Those who do not pay their fair share of taxes unfairly shifts the state's financial burden to the backs of honest taxpayers who do. It is *not* a victimless crime.

We have to reduce the tax gap, but we cannot do it alone. For millions of taxpayers/clients, you are the most influential source of tax information.

An amnesty program for individuals and business entities (Assembly Bill 2203) and increased penalties are just two of the possibilities lawmakers are considering using to help close the tax gap. Whatever they decide, you undoubtedly will play a key role. Prepare yourself by learning more about the tax gap and by getting involved. Look for tax gap events in your area and share your ideas and concerns with your fellow tax professionals and us. We will continue to provide you *Tax News* and frequent tax gap updates on our Website, www.ftb.ca.gov.

In this issue of *Tax News* we kickoff our tax gap series with the basics of the tax gap—what it is, what causes it, and our strategy for reducing it.

CONTINUED ON PAGE 4

California's tax gap

What is the tax gap?

The income tax gap is defined as the difference between what taxpayers owe and what they voluntarily pay or we detect and collect.

What causes the tax gap?

Individuals and business entities create the tax gap when they:

- Underreport (or overdeduct from) their income (80 percent of the federal tax gap). Examples include failing to report income, hiding barter and cash transactions.
- Fail to file required tax returns (10 percent of the tax gap based on federal estimates).
- Underpay their tax owed (10 percent of the tax gap based on federal estimates) Examples include failing to pay a balance due with a tax return and minimizing withholding of required taxes through false claims.

Individuals who do not fully report their income make up about 75 percent of the tax gap. According to the IRS:

- Wage earners whose wages are subject to tax withholding report about 99 percent of their income.
- Self-employed individuals who formally operate businesses other than farms, only report about 68 percent of their business income.
- Self-employed informal suppliers report an estimated 19 percent of their business income.

Business entities make up the remaining 25 percent of the tax gap:

- Small corporations tend to mirror the compliance behavior of self-employed individuals.
- Unreported income is the biggest compliance problem among small corporations.
- Noncompliance and underreporting occurs in large corporations primarily as a result of differing interpretations of the tax code. The corporation may interpret the law one way, and, upon audit, we interpret it another way, and as result, we recommend adjustments to the corporation's tax liability.

Contractors who make cash payments to their employees; families who pay cash to household employees such as

nannies, tutors, housekeepers, and landscapers; unlicensed contractors who usually work for cash; waitresses and waiters who conceal their tips; professionals who trade or barter services with one another; participants in swap meets; and people involved in illegal activities such as drug pushers and prostitutes all contribute to the tax gap.

How big is the tax gap?

For the 2001 tax year (most recent information available), the IRS estimates the national tax gap at \$255 billion.

The overall federal noncompliance rate is estimated to be 15 percent of all taxes administered by the IRS, including personal and corporate income tax, estate tax, excise tax, and employment tax. For income taxes administered by us, a cursory calculation that assumes California's *noncompliance rate* is proportional to the federal rate would produce an estimate of a state income tax gap of about \$6.5 billion per year.

Although not addressed here, California's tax gap, in addition to the estimated \$ 6.5 billion for income taxes, include taxes and fees owed to the state but unpaid annually, such as:

- 1) Sales and use taxes administered by the Board of Equalization.
- 2) Employment taxes administered by the Employment Development Department.

How do you reduce the tax gap?

Reducing the tax gap will require a balanced approach of enforcement, taxpayer education, and taxpayer service:

Find unreported income, assess it, and collect the taxes due.

We receive more than 220 million records from employers, banks, the IRS, and other financial information sources annually. We sort through them seeking to identify individuals and business entities that are generating income and not accurately filing their returns or not filing them at all.

We are looking at other information sources and tools that will help us detect noncompliance activities. Using new enforcement tools and information sources will help level the playing field for those taxpayers who honestly file and pay. A business that properly pays their taxes is at a financial disadvantage when the business next door

CONTINUED ON PAGE 5

California's tax gap

CONTINUED FROM PAGE 4

plays the tax roulette game and does not pay their state and federal taxes. Similarly, the policeman that is paid through wages (99 percent income reported) and files and pays is at a disadvantage when competing against an informal supplier (19 percent income reported) for the purchase of a family home.

Encourage nonfilers to pay their fair share of taxes in the future.

Lawmakers have authorized us to impose penalties, interest, and fees against individuals and business entities that do not report or underreport their income. We can impose late filing, underpayment, demand, frivolous return, and accuracy-related penalties. In the case of business entities that are doing business while out of compliance with the tax laws, we can not only impose penalties, but also suspend the corporation's rights, powers, and privileges.

Lawmakers, in the past, have also authorized us to operate an *amnesty* program as a way to encourage nonfilers to come into compliance, and to remain in compliance once they do.

This year, State Controller and Franchise Tax Board Chair Steve Westly co-authored AB 2203 (Chu), a bill that would create an amnesty program for taxpayers who have failed to file income tax returns, underreported reported income on a previously filed income tax return, or failed to file taxes previously assessed. The bill would be effective on January 1, 2005. The amnesty program would only apply to taxable years beginning before January 1, 2003.

"Tax amnesty can make the difference between preserving services and putting them on the budget chopping block," said Westly.

We recently concluded a highly successful amnesty program aimed at taxpayers participating in abusive tax shelters. Called the Voluntary Compliance Initiative, it allowed abusive tax shelter participants to file an amended return, pay the tax and interest associated with the abusive tax shelter, and not be assessed any penalties. We were authorized to use an expended regimen of penalties we could assess, and to demand broader reporting requirements for abusive tax shelter investors, promoters, tax advisors, and tax preparers involved in abusive tax shelters. The VCI ran from January 1 through April 15, 2004. In that short time it brought more than 750 individuals and 370 businesses into compliance. These taxpayers reported more than \$1.3 billion in taxes owed.

In 2002, we identified eligible taxpayers with certain high-risk collection accounts and offered those taxpayers the

opportunity to satisfy an unpaid tax liability by paying the tax in full and receiving a waiver of interest, penalties, and fees. This interest and penalty waiver program, also known as the Revenue Acceleration Project, operated from October 2002 through June 30, 2003 and it generated \$32 million in tax revenue.

In 1984, we administered an amnesty program aimed at individuals who failed to report or underreported income. The program ran for about 92 days and produced about \$154 million in tax revenue and interest.

If the amnesty bill passes, we must educate the public and motivate tax cheats to take advantage of it as their last chance to avoid trouble.

Educate taxpayers about the advantages of voluntarily compliance and the cost associated with involuntary compliance.

Our primary objective is to make sure that, as many people as possible are aware of the tax gap, its effects on us all, and what we're doing about it. You can help by explaining to your clients the seriousness of the tax gap problem and by sharing with them the information we provide.

What happens next?

California's tax gap is a chronic societal problem and it is growing. According to State Controller Steve Westly, "the first step in closing the budget gap should be collecting the taxes already on the books. Before we raise taxes or cut vital services, let's make sure everyone is paying their fair share."

Closing the gap will require decisive, effective action. That is why the Controller has proposed expanding our income matching, audit, collections, and nonfiler identification programs; and for reinstating our questionable wage withholding and misdemeanor enforcement programs. He has also called for using new audit modeling techniques and information sources to identify non-filers and underreported income, and for implementing additional penalties for filing false returns or failure to pay taxes, file returns, or provide required information.

He has also called on the Legislature to consider a number of new steps to reduce tax fraud, including proposals to identify taxpayers and corporations failing to file returns, create a reward program for informants who report tax violations, and to bar unscrupulous tax practitioners from doing business. This is just the beginning of our campaign to reduce the tax gap. As things evolve look for us to increase our education and outreach activities. For more information, check out our Website, www.ftb.ca.gov (enter the keywords *tax gap*), and *Tax News Online*. To track AB 2203, the amnesty bill, go to the *Bill Information Webpage* at www.ftb.ca.gov.

Tax e-News:

FTB news via email that's free and easy to use

If you have not yet signed up for *Tax e-News*, our free email service, you most likely missed the recent tax gap symposiums hosted by *Spidell Publishing* and us, and, you probably weren't among the tax professionals who were on the ground floor when we announced the start of our *Voluntary Compliance Initiative*.

When fast-breaking news about key legislation such as Assembly Bill 2203, the *Amnesty Bill*, becomes available, *Tax e-News* subscribers will be among the first to know and the first to act on behalf of their clients.

These are just a few examples of the type of information we provide in *Tax e-News*. How much more late-breaking news can you afford to miss?

Tax e-News is free, easy to use, relevant, and because we know how busy you are, non-intrusive. We intentionally make our bulletins simple and straightforward. We don't bog down your computer with unessential attachments; instead we give you the news first then we tell you where, and how you can get more detailed and comprehensive information, usually from our Website, **www.ftb.ca.gov**. In other words, we let you choose how much information you need and how you want to read it.

We also respect your time and your privacy. We use your email address for official FTB-related business only. To view our complete privacy policy go to our Website at **www.ftb.ca.gov**, and click on the link entitled *FTB Privacy* located at the bottom of the Webpage. Or, perform a search using the keyword: *privacy*.

We maintain a strict no-spam policy. We don't send it and we don't want to receive it either. For these reasons we attempt to verify every subscription request. When you sign up for *Tax e-News* we take an additional security measure by sending you a confirmation e-mail. This extra step helps us ensure that your email server is compatible with ours so that you can receive our bulletins and it makes it tougher for a third party to put you on our mailing list without your permission. We do not want to send e-mail to you without your permission.

If you have not already signed up to receive *Tax e-News*, what are you waiting for? Do so now and start receiving official information about California income tax, mailed directly to your desktop. The service is free and you can subscribe as many times as you like (it is not uncommon to have more than one email account). *Tax e-News* subscribers also receive, free of charge, the electronic version of *Tax News*. You will not only receive your *Tax News* free, but you will also get it first, since we place it on our website several days before we mail the print version.

Here's how to subscribe to *Tax e-News*:

1. Address an email message to *listserveradmin@ftb.ca.gov*.
2. On the subject line, type the following phrase: *subscribe fbtaxnews*. Be sure to put a space between the two words. (If possible, do not insert your *auto signature*)
3. Send the email.

Within minutes you will receive a confirmation message from the *FTB listserver*:

Your request to add the mailbox <name deleted> to the list 'FTBTaxNews' has been forwarded to the list owner for approval.

The number of commands processed successfully was 1.

Within 48 hours you will receive another email message from the *FTB listserver*:

You are now subscribed to the Franchise Tax Board's Tax News email service.

If you have questions about your subscription, contact the Tax News Helpdesk at (916) 845-7070 or send an email to taxnews@ftb.ca.gov

To leave the list at any time, send email to <ListServerAdmin@ftb.ca.gov> with this command: unsubscribe FTBTaxNews

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Changing your email address? First re-subscribe using your new email address. Then, unsubscribe your old address using the instructions provided in this article.

Tax e-News works hand in hand with our Website, www.ftb.ca.gov. You can always find instructions and hyperlinks to *Tax e-News* there. Go to www.ftb.ca.gov, click on *Tax News Online*, and look for the *subscriptions Webpage*. If you need help subscribing to *Tax e-News*, call the *Tax News Helpdesk* at (916) 845-7070.

New email address for abusive shelter queries

On May 17, we ended our Voluntary Compliance Initiative Hotline and canceled the special Voluntary Compliance Initiative email address. We have established a new email address for abusive tax shelter queries.

The Voluntary Compliance Initiative ended April 15. It provided taxpayers, who used abusive tax shelters or transactions to underreport their income or tax liability, the option to amend their returns and obtain a waiver of various penalties. The hotline and email address were initially created

to provide quick answers to your questions regarding participation in the initiative.

From now until September, all calls to our Voluntary Compliance Initiative Hotline will automatically transfer to our toll-free service number (800) 852-5711. Any emails sent to the old **vci@ftb.ca.gov** address will be automatically forwarded to the new abusive tax shelter email address, **TaxShelter@ftb.ca.gov**. For information about our abusive tax shelter program, go to our Website at **www.ftb.ca.gov**, keywords: *abusive tax shelter*.

Do your part...

Avoid these common errors when preparing returns and your clients returns will sail through our processing procedures.

Estimate payments

When the estimate payment total taxpayers claim on their return is different from the total we receive, we delay processing while we issue a notice about the discrepancy to the taxpayer. You can keep track of your clients' estimate payment activity by using the Check Account Balance feature on our Website, **www.ftb.ca.gov**. This application lets you view a record of the estimate payments we have received from your clients before you complete this step of the tax return.

You will need your clients' social security number and their customer service number in order to access their account information. You can obtain their customer service number from us if you can provide us with the appropriate Franchise Tax Board Power of Attorney, Form FTB 3520. To learn more about our Customer Service Number Program visit our Customer Service Number Webpage.

When adjusting estimate payment information on a scannable return, make sure you make the correction on both pages of the return. So, if you change the estimate payment total amount in the scan band portion of the return,

you must also change the total on Page 2 of the return or we will input the wrong amount.

Exemption credits

Be sure exemptions have been totaled correctly and that the total exemptions have been transferred to the correct line of the return.

Tax liability

Make sure all figures above the tax line have been reported correctly so the correct tax is computed. Use the automated tax table on our Website and make sure you transfer the correct tax amount from the tax table to the tax return.

Excess State Disability Insurance claims

When reporting the amount of excess state disability insurance, make sure you only use the amount provided in the state disability insurance section of the client's form W-2. For clients using the married filing joint filing status, be sure to calculate the primary taxpayer's and spouse's excess state disability insurance separately.

Do not include state disability insurance amounts from out-of-state sources in the total.

...File smart

FTB e-file available through Oct. 15

You still can file your clients' returns electronically through October 15, 2004.

If you have clients who still have not yet filed and you have been thinking about joining the e-file program, now would be a good time.

You can see how the program works without the stress of the April 15 deadline and your clients can take advantage of the benefits of e-file. Benefits include:

Acknowledgement of receipt. You and your clients will not have to worry about whether we received their returns before the October 15 deadline, because we provide an electronic acknowledgement as soon as we accept their return.

Faster refunds. If your clients are getting refunds, they can have it electronically deposited into their bank account.

Electronic funds withdrawal. Clients with a balance due can authorize us to debit their bank accounts on a specified date for the amount due.

See the difference e-file can make in your business. Complete and submit the California e-file Program Enrollment Form (Form FTB 8633), online at www.ftb.ca.gov. To locate, use the key words: *join e-file*. There's nothing to mail. You will be enrolled within 48 hours and generally can begin submitting e-file returns at that time. You will receive a confirmation letter and program information from us by mail within seven days.

New e-file signature option on 2004 returns



We are adding electronic signature options to our e-file signature procedures. Many e-filers have requested we mirror the Internal Revenue Service and allow

taxpayers and tax practitioners to sign using a personal identification number (PIN). Beginning January 2005, we will accept electronic signatures using the Self-Select PIN and Practitioner PIN methods.

In addition to the new electronic signature options you will still have the option to use the California e-file Return Authorization (Form FTB 8453).

Look for more information on this subject in the next edition of *Tax News* and soon on our Website www.ftb.ca.gov.

Check website for e-file workshops

Collaborating with the Internal Revenue Service, we're developing great new workshops for tax practitioners. The workshops will include what you need to know to get your e-file office off the ground and use both agencies' free electronic services.

You will receive information from the IRS, FTB, and tax practitioners who are experts in e-file. If you haven't participated in prior years, now is the time to get on board.

The schedule of workshops will be posted to our website, www.ftb.ca.gov, in the near future. Just search for: e-file workshops.

Did you get your e-file CD-ROM?

In December we began mailing the e-file CD-ROM to all approved California e-file participants. Did you get yours? It contains the *2003 e-file Handbook* (FTB Pub. 1345), *2003 e-file Handbook Supplement* (FTB Pub. 1345A), *e-file Quick References* and other resource information.

This is our second year of providing the publications on CD-ROM instead of paper. Does the CD-ROM meet your needs? Tell us what you think by sending an email to e-file@ftb.ca.gov. Include CD-ROM in the subject line. If you did not receive your CD-ROM and would like to request one, please send your request to the email address indicated above.

First year of mandatory e-file a success

We want to send a quick note of thanks to acknowledge all of your hard work in complying with the mandatory e-file law this first year. We know it presented many challenges but your can-do attitude and willingness to work with us made the first year of mandatory e-file a success and at the same time saved the state millions of dollars. Way to go!

If you still need to get on board and enroll in the California e-file program, it's not too late. Go to the e-file enrollment page of our Website at **www.ftb.ca.gov**. We accept enrollment forms year-round.

Need more information? Our Website, **www.ftb.ca.gov**, is your best source for information about California's mandatory e-file. We are constantly updating the Frequently Asked Questions Webpage with answers to questions we receive.

If you still have a question after reviewing our Frequently Asked Questions, please be sure to contact our e-Programs Customer Service Unit at (916) 845-0353, or email us at efile@ftb.ca.gov.

Join the Secure Electronic Communications program today

Don't spend your time waiting on the slow mail process – join the more than 260 tax professionals and individuals now using our fast Secure Electronic Communications system! It's free, available 24/7, and easy to use. It allows you to exchange confidential documents with us without compromising your client's privacy or security.

All you need is a browser that supports 128-bit SSL encryption and the latest virus protection software. To get started, simply tell your Franchise Tax Board Audit or Legal contact that you want to use our Secure Electronic Communications system. We will initiate the registration process and send you information about how to use the system.

With Web Pay, paying taxes has never been easier

Your clients can pay their personal income tax bill for the 2003 tax year when they e-file or through our Website using Web Pay. Both methods work much like any other online bill payment system or electronic funds withdrawal request.

When you e-file your clients' 2003 tax returns, you can conveniently schedule electronic funds withdrawal requests for any or all of their 2004 estimated tax payments. Your software will prompt you to specify the withdrawal date and the amount of the estimated tax payments and will display the information on your client's California e-file Return Authorization (Form FTB 8453). Be sure to check if your software offers the electronic funds withdrawal feature for estimated tax payments.

With Web Pay, taxpayers log in to this secure service using their Social Security Number and Customer Service Number (CSN). Then they simply enter their bank account information, the amount they need to pay, and the date they want the payment made. We withdraw the funds from their bank account on the date they specify. For balance due returns and extension payments, taxpayers should select a date on or before April 15 to avoid penalties and interest.

Your clients can use Web Pay to arrange for automatic withdrawal of their estimated tax payment from a bank

account, up to one year in advance. They can also use Web Pay to make a tax bill payment, extension payment, or payment for prior years' taxes.

To cancel any electronic funds withdrawal or Web Pay payment, your client must call our e-Programs Customer Service Unit at (916) 845-0353 at least two business days before the scheduled payment date.

For more information on the payment options available, go to **www.ftb.ca.gov** and search for: payment options.

Web Pay

Web Pay is the fast, safe, and efficient way for your clients to pay their personal income taxes online.

With Web Pay, your customers can make the following types of payments online:

- Estimated tax.
- Bill.
- Return.
- Extension.

www.ftb.ca.gov

State's median income up slightly in 2002

Four Bay Area counties reported the highest median income while the median income of all state returns rose slightly in 2002, according to our Economic Research and Statistics Bureau.

The statewide median income on all returns was \$31,734, an increase of 0.2 percent over 2001's median income amount. For joint returns, the statewide median income was \$57,996, a decrease of 0.6 percent from 2001.

Median income is the point where one-half of the tax returns are above and one-half are below the midpoint of the range of values. Median income represents the income reported by a typical California person or couple.

Californians filed nearly 14 million 2002 state income tax returns, reporting \$860.9 billion of adjusted gross income. This is a decrease of 3.4 percent from the 2001 tax year's reported \$891.1 billion.

Over the past 31 years, the Bay Area counties of Contra Costa, Marin, San Mateo, and Santa Clara have consistently reported the highest median incomes. Marin County recorded the highest median income for joint returns, reporting \$92,481, a decrease of 4.5 percent over 2001. Santa Clara County ranked second with \$82,150, while San Mateo County ranked third with \$81,259, and Contra Costa County ranked fourth with \$78,670.

Los Angeles County taxpayers filed 25.9 percent of all 2002 income tax returns in California. They reported median incomes of \$27,164 for all returns, and \$48,798 for joint returns, ranking 39th and 33rd respectively.

The largest percentage gain in median income for all counties was 6.8 percent, reported in Alpine County. For joint returns, Alpine County again reported the largest increase of 8.4 percent.

Refer to the chart on page 11 for specific county information. For 1999, 2000, and 2001 data go to our Website, www.ftb.ca.gov, and do a keyword search for *median income*.

Interest Rates

For the period of July 1, 2004, through December 31, 2004, the adjusted interest rate on underpayments of California personal income tax, and, corporate income and franchise taxes will be four percent.

The interest rate on corporation overpayments for the same period will be one percent.

Verify clients' estimate payments online, anytime

In 2003, we sent over 130,000 correction notices regarding estimate payment discrepancies to taxpayers with professionally prepared returns. You can avoid the hassle for this type of correction notice by taking one small step prior to preparing their returns.

Verify your clients' estimated tax payments online before you prepare their returns with our *View Payments and Balance Due* service. This service can also be used to view recent payments applied to a balance due, the current balance due, and a summary of each balance due tax year for personal income tax accounts.

It's easy to use. Your clients (or you, with your clients' permission) only need their Franchise Tax Board Customer Service Number (CSN) and Social Security Number (SSN).

The CSN is the key to unlocking the many secure online services we offer.

You or your clients can retrieve their CSN with our online CSN service. The online CSN service requires only your client's Social Security Number and a shared secret from their original 2002 California tax return.

Clients expecting refunds can see the status of their refund by checking with us instead of contacting you. They can do this online using our *Refund Status* service. The service will let them know that we received their current year return and the approximate day they can expect to receive their refund. By directing your clients to our Website, you may reduce calls to your office. Go to www.ftb.ca.gov, and check all the e-services we provide.



Personal Income Tax Statistics
COMPARISON BY COUNTY
2002 Taxable Year

COUNTY	Population July 1, 2002	All Returns-Taxable and Nontaxable				Joint Returns			Tax Assessed (Thousands)
		Number of Returns	AGI (Thousands)	Median		Number of Returns	Median		
				Income	Rank		Income	Rank	
Alameda	1,488,000	612,164	35,988,932	38,044	8	234,190	72,293	5	1,441,016
Alpine	1,240	309	14,251	34,166	14	154	55,788	20	434
Amador	36,600	14,423	636,952	32,930	18	7,487	52,235	26	18,582
Butte	209,700	75,767	2,957,379	25,332	46	33,353	45,220	43	87,539
Calaveras	42,500	17,098	775,024	32,885	19	9,073	51,484	29	22,776
Colusa	19,600	7,666	256,607	23,288	56	3,587	36,933	57	6,479
Contra Costa	989,800	415,059	28,457,604	42,762	4	181,681	78,670	4	1,216,733
Del Norte	27,900	7,643	279,679	26,759	41	3,722	46,285	41	6,650
El Dorado	165,400	61,404	3,727,513	40,488	5	33,016	67,251	7	132,518
Fresno	836,100	276,356	11,143,983	25,204	48	114,292	47,015	37	340,998
Glenn	26,950	9,740	324,009	23,681	55	4,748	37,622	56	7,584
Humboldt	128,400	47,614	1,763,450	25,356	45	19,808	46,512	40	49,446
Imperial	149,300	48,567	1,608,742	21,164	58	23,894	31,897	58	37,861
Inyo	18,400	7,912	320,747	28,329	34	3,579	50,842	31	8,993
Kern	698,000	218,583	8,878,902	27,295	38	99,318	48,540	34	251,447
Kings	135,100	36,190	1,317,950	25,732	42	16,677	43,669	46	30,346
Lake	61,300	21,095	771,611	25,651	44	9,713	42,662	47	19,339
Lassen	34,100	9,716	405,623	33,499	16	5,149	53,269	25	10,191
Los Angeles	9,889,300	3,668,786	185,449,207	27,164	39	1,290,065	48,798	33	7,232,120
Madera	129,500	40,676	1,480,721	24,756	53	19,759	42,090	49	37,466
Marin	250,100	115,735	11,238,467	44,399	1	45,589	92,481	1	633,394
Mariposa	17,550	6,474	243,971	27,120	40	3,160	44,315	45	6,305
Mendocino	88,300	34,580	1,309,627	25,684	43	14,774	44,440	44	37,054
Merced	223,800	72,658	2,608,821	24,861	52	33,273	42,108	48	61,450
Modoc	9,350	2,810	97,176	25,216	47	1,504	37,732	55	2,557
Mono	13,400	4,877	207,854	28,242	35	1,880	54,449	23	6,105
Monterey	413,700	144,927	7,039,862	29,429	30	59,781	51,918	27	246,086
Napa	128,900	49,395	2,963,605	35,208	12	21,842	61,526	14	122,094
Nevada	96,000	39,536	1,889,289	31,864	21	19,087	54,207	24	61,507
Orange	2,959,600	1,197,923	72,532,968	34,081	15	505,389	64,646	10	3,089,094
Placer	273,300	134,808	8,126,260	39,155	6	66,404	69,114	6	310,715
Plumas	21,100	7,932	327,739	29,872	28	4,047	48,194	35	9,052
Riverside	1,682,500	603,749	26,756,630	29,498	29	272,233	51,792	28	749,668
Sacramento	1,302,600	518,704	24,950,183	33,498	17	204,181	59,716	16	817,711
San Benito	55,900	20,918	1,053,842	35,358	10	9,917	62,682	13	32,199
San Bernardino	1,816,500	623,000	26,032,791	29,363	31	268,458	51,348	30	663,867
San Diego	2,944,500	1,163,212	62,739,416	31,813	22	474,835	58,583	17	2,359,200
San Francisco	788,200	378,124	25,435,374	35,958	9	101,483	58,493	18	1,304,206
San Joaquin	607,800	217,135	9,834,101	30,990	25	96,958	54,781	21	293,918
San Luis Obispo	255,400	100,920	4,943,460	31,122	24	45,075	56,463	19	171,662
San Mateo	711,700	311,653	26,795,705	43,477	2	126,325	81,259	3	1,407,702
Santa Barbara	408,400	157,209	8,686,845	30,463	26	65,437	54,586	22	356,379
Santa Clara	1,717,000	733,515	53,855,875	43,105	3	306,948	82,150	2	2,554,506
Santa Cruz	259,100	108,296	5,873,558	31,975	20	41,625	62,688	12	230,009
Shasta	172,100	65,922	2,763,911	28,138	36	32,459	46,802	38	81,153
Sierra	3,500	1,233	49,085	29,976	27	621	46,533	39	1,317
Siskiyou	44,600	16,876	586,140	24,865	51	8,359	39,902	52	14,207
Solano	411,600	162,555	8,167,178	38,120	7	70,775	66,849	8	242,465
Sonoma	470,700	200,738	10,718,662	35,228	11	82,952	64,374	11	394,485
Stanislaus	477,900	171,388	7,283,091	29,121	32	78,482	49,739	32	209,986
Sutter	82,600	30,699	1,219,650	27,349	37	15,194	45,287	42	33,689
Tehama	57,600	17,655	603,642	24,973	50	8,705	39,542	53	13,854
Trinity	13,250	4,471	148,352	24,425	54	2,217	39,112	54	3,200
Tulare	383,100	122,669	4,199,541	22,584	57	53,703	40,110	50	103,916
Tuolumne	56,500	21,552	894,463	28,636	33	10,384	47,738	36	26,457
Ventura	788,200	313,917	18,514,571	34,614	13	141,257	64,774	9	708,816
Yolo	180,100	67,544	3,377,092	31,787	23	28,557	60,474	15	117,619
Yuba	62,700	19,782	671,379	25,173	49	9,297	40,020	51	14,368
Resident Out-of-State	-	181,612	11,203,906	28,527	-	63,974	54,778	-	545,151
Nonresident	-	415,187	117,852,551	54,467	-	221,246	91,021	-	987,942
Unallocated	-	10,329	566,264	28,038	-	3,134	53,848	-	20,744
TOTAL									
58 Counties	35,336,340	13,561,859	\$731,299,062	-	-	5,446,432	-	-	\$28,450,490
All	-	14,168,987	\$860,921,783	\$31,734	-	5,734,786	\$57,996	-	\$30,004,327

Tax Practitioner Services & Holiday Calendar

Tax Practitioner Hotline

Telephone 916.845.7057

Fax 916.845.6377

Personal Income Tax Collection

Fax 916. 845.0494

Business Entities Collection

Fax 916. 845.0145

FTB e-file Help Desk

Telephone 916. 845.0353

The Tax Practitioner Hotline is open
Monday through Friday, 8 a.m. to
5 p.m. The Hotline is not open on
weekends and state holidays.

2004 Official California State Holidays

Thursday, January 1, 2004

New Year's Day

Monday, January 19, 2004

Martin Luther King Jr. Day

Thursday, February 12, 2004

Lincoln's Birthday

Monday, February 16, 2004

Washington's Birthday (observed)

Wednesday, March 31, 2004

Cesar Chavez Day

Monday, May 31, 2004

Memorial Day

Monday, July 5, 2004
Independence Day (observed)

Monday, September 6, 2004
Labor Day

Monday, October 11, 2004
Columbus Day

Thursday, November 11, 2004
Veteran's Day

Thursday, November 25, 2004
Thanksgiving Day

Friday, November 26, 2004
Day after Thanksgiving

Saturday, December 25, 2004
Christmas Day

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